

**REDEVELOPMENT AGENCY  
OF THE COUNTY OF SAN DIEGO  
FINANCIAL STATEMENTS  
JUNE 30, 2011**

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**Financial Statements**  
**For the Fiscal Year Ended June 30, 2011**

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A LEVY, CPA  
CRAIG A HARTZHEIM, CPA  
HADLEY Y HUI, CPA

**COMMERCIAL ACCOUNTING & TAX SERVICES**

9107 WILSHIRE BLVD. SUITE 500  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**GOVERNMENTAL AUDIT SERVICES**

5800 HANNUM, SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**INDEPENDENT AUDITOR'S REPORT**

Members of the Governing Board  
Redevelopment Agency of the County of San Diego  
San Diego, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego (Agency), a component unit of the County of San Diego, California, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego as of June 30, 2011, and the respective changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, and Statement No. 59, *Financial Instruments Omnibus*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 30 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The Calculation of Excess Surplus on page 36 is presented for purposes of additional analysis and are is not a required part of the financial statements. The Calculation of Excess Surplus is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 5, 2011

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

**ASSETS**

	Governmental Activities
Equity in pooled cash and investments	\$ 6,241,383
Cash and investments with fiscal agents	1,154,993
Accounts receivable	37,245
Tax increment receivable	171,533
Interest receivable	317,987
Prepaid item	330,303
Loans receivable	3,417,074
Deferred charges - net of accumulated amortization of \$85,980	<u>329,803</u>
Total Assets	<u>12,000,321</u>

**LIABILITIES**

Accounts payable	616,412
Interest payable	64,635
Unearned revenue	49,000
Long-term debt:	
Due in one year	423,298
Due in more than one year	<u>18,665,120</u>
Total Liabilities	<u>19,818,465</u>

**NET ASSETS**

Restricted for:	
Debt service	1,090,358
Low and moderate income housing	6,589,830
Redevelopment activities	<u>3,223,038</u>
Total restricted net assets	10,903,226
Unrestricted (deficit)	<u>(18,721,370)</u>
Total Net Assets (Deficit)	<u><u>\$ (7,818,144)</u></u>

See accompanying notes to basic financial statements

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**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities:		
Expenses:		
Community development - projects	\$ 1,331,842	\$ (1,331,842)
Pass-through payments - school districts	1,077,214	(1,077,214)
Interest on long-term debt	<u>825,757</u>	<u>(825,757)</u>
Total	<u>\$ 3,234,813</u>	<u>(3,234,813)</u>
General revenues:		
Incremental property taxes		4,058,914
Use of money and property		<u>121,889</u>
Total general revenues		<u>4,180,803</u>
Change in Net Assets		945,990
Net Assets (Deficit) - Beginning of fiscal year		<u>(8,764,134)</u>
Net Assets (Deficit) - End of fiscal year		<u>\$ (7,818,144)</u>

See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2011**

		Gillespie Field	
	Redevelopment	Special Revenue	Debt
	Special	Housing	Service
	Revenue	Fund	Fund
	Fund		
<b>ASSETS</b>			
Equity in pooled cash and investments	\$ 2,340,934	\$ 1,498,375	\$ -
Cash and investments with fiscal agent	-	-	1,154,993
Accounts receivable	-	-	-
Tax increment receivable	86,263	-	-
Interest receivable	2,963	203,010	-
Prepaid items	-	269,138	-
Due from other funds	-	65,602	-
Loans receivable	-	2,466,450	-
Total Assets	<u>\$ 2,430,160</u>	<u>\$ 4,502,575</u>	<u>\$ 1,154,993</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable	\$ 612,720	\$ -	\$ -
Due to other funds	65,602	-	-
Unearned revenue	25,000	-	-
Deferred revenue	64,000	201,014	-
Total Liabilities	<u>767,322</u>	<u>201,014</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable:			
Loans receivable	-	2,466,450	-
Prepaid items	-	269,138	-
Restricted for:			
Debt service reserve	-	-	1,154,993
Low and moderate income housing	-	1,565,973	-
Redevelopment activities	1,662,838	-	-
Total Fund Balances	<u>1,662,838</u>	<u>4,301,561</u>	<u>1,154,993</u>
Total Liabilities and Fund Balances	<u>\$ 2,430,160</u>	<u>\$ 4,502,575</u>	<u>\$ 1,154,993</u>

See accompanying notes to basic financial statements



Upper San Diego River		
Redevelopment Special Revenue Fund	Special Revenue Housing Fund	Total Governmental Funds
\$ 1,441,087	\$ 960,987	\$ 6,241,383
-	-	1,154,993
37,245	-	37,245
85,270	-	171,533
1,918	110,096	317,987
-	61,165	330,303
-	4,611	70,213
-	950,624	3,417,074
<u>\$ 1,565,520</u>	<u>\$ 2,087,483</u>	<u>\$ 11,740,731</u>
\$ 3,464	\$ 228	\$ 616,412
4,611	-	70,213
24,000	-	49,000
100,245	108,830	474,089
<u>132,320</u>	<u>109,058</u>	<u>1,209,714</u>
-	950,624	3,417,074
-	61,165	330,303
-	-	1,154,993
-	966,636	2,532,609
1,433,200	-	3,096,038
<u>1,433,200</u>	<u>1,978,425</u>	<u>10,531,017</u>
<u>\$ 1,565,520</u>	<u>\$ 2,087,483</u>	<u>\$ 11,740,731</u>

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**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2011**

FUND BALANCES - GOVERNMENTAL FUNDS	\$ 10,531,017
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Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:

Interest accrued on loans receivable are not available to pay for current expenditures and, therefore are offset by deferred revenue in the governmental funds.	309,844
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Property tax revenues that do not provide current financial resources (not received within the 60 days after year-end), are reported as deferred revenues in the governmental funds but are recognized as revenues in the Statement of Activities.	127,000
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Short-term loan made to other governmental entity not to be received within 180 days after fiscal year end.	37,245
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LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the funds:

Deferred charges are not available to pay for current period expenditures and therefore are not reported as governmental fund assets. These deferred charges are net of \$85,980 accumulated amortization	329,803
---	---------

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition, bond discounts are expended in Governmental Funds in the year of sale but are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.	(19,153,053)
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NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$ (7,818,144)
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See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Gillespie Field		
	Redevelopment Special Revenue Fund	Special Revenue Housing Fund	Debt Service Fund
REVENUES			
Property tax increment	\$ 2,560,160	\$ -	\$ -
Use of money and property	6,664	7,664	-
Other income	-	-	-
Total Revenues	2,566,824	7,664	-
EXPENDITURES			
Current:			
Community development	110,118	33,710	-
Debt service:			
Principal	-	-	360,000
Interest and fiscal charges	-	-	783,450
Pass through agreements - school districts	806,605	-	-
Total Expenditures	916,723	33,710	1,143,450
Excess of Revenues Over (Under) Expenditures	1,650,101	(26,046)	(1,143,450)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	512,032	1,143,450
Transfers out	(1,655,482)	-	-
Total Other Financing Sources (Uses)	(1,655,482)	512,032	1,143,450
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(5,381)	485,986	-
FUND BALANCES, BEGINNING OF FISCAL YEAR	1,668,219	3,815,575	1,154,993
FUND BALANCES, END OF FISCAL YEAR	\$ 1,662,838	\$ 4,301,561	\$ 1,154,993

See accompanying notes to basic financial statements

Upper San Diego River		
Redevelopment Special Revenue Fund	Special Revenue Housing Fund	Total Governmental Funds
\$ 1,546,754	\$ -	\$ 4,106,914
1,675	8,047	24,050
2,755	-	2,755
1,551,184	8,047	4,133,719
1,139,092	48,922	1,331,842
50,000	-	410,000
43,000	-	826,450
270,609	-	1,077,214
1,502,701	48,922	3,645,506
48,483	(40,875)	488,213
-	309,351	1,964,833
(309,351)	-	(1,964,833)
(309,351)	309,351	-
(260,868)	268,476	488,213
1,694,068	1,709,949	10,042,804
\$ 1,433,200	\$ 1,978,425	\$ 10,531,017

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
RECONCILIATION OF THE NET CHANGE IN FUND  
BALANCES TO THE STATEMENT OF ACTIVITIES -  
TOTAL GOVERNMENTAL FUNDS  
For the Fiscal Year Ended June 30, 2011**

NET CHANGE IN FUND BALANCES	\$	488,213
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

LONG-TERM DEBT PAYMENTS

The reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets".		410,000
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Revenues that do not provide current financial resources are not reported as revenues in the funds (deferred revenue) but are recognized as revenue in the statement of activities.		97,839
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Governmental funds accrue property tax revenue which is deemed collectible within 60 days. However, for the statement of activities the total amount estimated to ultimately be collected is accrued.		(48,000)
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Short-term portion of loan not collected within 180 days after year-end.		(2,755)
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Accrued interest payable on long-term debt, net change for the period.		1,305
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(612)
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CHANGE IN NET ASSETS	\$	<u>945,990</u>
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See accompanying notes to basic financial statements

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 1 - General**

The San Diego County Board of Supervisors created the Redevelopment Agency of the County of San Diego (Agency) on March 4, 1975 in accordance with California Redevelopment Law. The Board of Supervisors of the County of San Diego has by Ordinance No. 4393 (New Series) declared itself to be the governing board. The Department of Housing and Community Development provides administrative oversight for the Agency. The Agency has two projects: Gillespie Field Redevelopment Project managed by the Department of Public Works (DPW) and the Upper San Diego River Redevelopment Project (USDRIP) managed by Department of Planning and Land Use (DPLU).

The Agency was established to provide a method for eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. The Gillespie Field Project Area is approximately 746 acres located at Gillespie Field Airport in the City of El Cajon. USDRIP is a redevelopment project covering 529 acres located along both sides of the San Diego River and along Highway 67 in the community of Lakeside.

**Note 2 – Summary of Significant Accounting Policies**

For the fiscal year ended June 30, 2011, the Agency implemented the provisions of Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions. The Agency also adopted the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*, effective July 1, 2010, which had no effect on the financial statements.

The accounting policies of the Redevelopment Agency of the County of San Diego (Agency) conform to accounting principles generally accepted in the United States of America (US GAAP) applicable to governmental units.

The following is a summary of the more significant of such policies:

**a. Reporting Entity**

The accompanying financial statements report on the financial activities of the Agency. The Agency, a blended component unit of the County, is a separate but related entity, of the County. The Agency's financial statements are also included in the County's Comprehensive Annual Financial Report (CAFR). The reason for including the Agency in the CAFR is the exercise of oversight responsibility over the Agency's activities by the County Board of Supervisors who also act as the Agency's Board of Directors.

Pursuant to Health and Safety Code sections 33080 through 33080.4 the Agency is required to submit an annual report to the Local Governmental Fiscal Affairs (LGFA) unit of the State Controller within six months of the end of the Agency's fiscal year. The Annual report includes completed financial reports, a component unit audit, and the report on the Status and Use of the Low and Moderate Income Housing Fund.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**a. Reporting Entity (Continued)**

It is prepared in conjunction with the Departments of Housing and Community Development Planning and Land Use, Public Works, and County Auditor and Controller. Failure to meet the deadline will result in a fine of \$10,000.

**b. Basis of Presentation**

*Statement of Net Assets* presents government-wide information of the Agency's assets, liabilities, and net assets. It measures not only the current liabilities but also long-term liabilities of the Agency.

*Statement of Activities* reports the operations of the Agency. It measures the revenues and expenses by functions or activities using the economic resources measurement focus and accrual basis of accounting; revenues and expenses resulting from exchange and exchange-like transactions are reported when the exchange occurred.

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after fiscal year-end. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on long-term debt, if any, is recognized when due.

*Fund Statements* consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Long-term debt/receivable is eliminated in the Balance Sheet because governmental fund statements are only required to report assets and liabilities that are due during the fiscal year or soon thereafter. The principal payment of Debt Service is recorded as an expense in the Statement of Revenues, Expenditures, and Changes in Fund Balances but not in the Statement of Activities because revenues and expenses are to be recognized in the fund statements when cash or services are received during the current fiscal year or soon thereafter.

*Non-exchange transactions*, in which the Agency gives or receives value without directly receiving or giving value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The financial transactions of the Agency are recorded in individual funds. The various funds are reported by type in the financial statements. The Redevelopment Agency uses the following governmental fund types:



**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**b. Basis of Presentation (Continued)**

Redevelopment Special Revenue Funds

These funds are used to account for financial resources obtained and used for pass-through payments to taxing entities recorded in the Gillespie Field Redevelopment Special Revenue and Upper San Diego River Redevelopment Special Revenue Funds. Also included are mandatory set-asides for housing projects.

Debt Service Fund

This fund is used to account for the accumulation of resources for the payment of principal and interest of the Revenue Refunding Bonds, Series 2005 (Gillespie Project).

Interfund activity between funds is eliminated to minimize the doubling effect in both the fund and government-wide statements

**c. Low and Moderate Income Housing**

Per Health and Safety Code Section 33334.2, not less than 20% of all taxes which are allocated to the Agency pursuant to Health and Safety Code Section 33670 must be set aside by the Agency for the purpose of increasing, improving, and preserving the community's supply of low and moderate income housing.

The reserves for the Upper San Diego River Project and the Gillespie Field Project that represent the required 20% set aside for housing amounted to \$966,636 and \$1,565,973 respectively, at June 30, 2011.

**d. Major Funds**

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total of all fund types. The Agency has determined that all its funds are major funds.

The Agency reported the following major governmental funds in the accompanying financial statements:

**Housing Funds – Gillespie Field and Upper San Diego River Project Areas** – These funds account for the portion of County tax increment funds received for redevelopment related purposes, and set aside for low and moderate income housing.

**Redevelopment Special Revenue Funds – Gillespie Field and Upper San Diego River Project Areas** – These funds account for property tax increment revenues received for each project area and records pass-through payments to school districts and other taxing entities.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**d. Major Funds (Continued)**

These funds also account for transfers of the required 20% set aside to the Housing Funds for each project area.

**Debt Service Fund – Gillespie Field Project Area** – This fund accounts for debt service payments on the Agency’s long-term debt issues.

**e. Accounting Policies**

Revenue

The Agency’s primary source of revenue is property taxes, referred to in the accompanying component unit financial statements as “incremental property taxes”. Property taxes allocated to the Agency are computed in the following manner:

- a. The assessed valuation of all property in the Project Areas is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
- b. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the County and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the County. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the County.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from State and federal governments, interest income, and the issuance of Agency debt.

Property Taxes

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of San Diego levies, bills, and collects property taxes for the Agency; the County reunites the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 2 – Summary of Significant Accounting Policies (Continued)**

**f. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP), except that the Special Revenue Funds' expenditures are budgeted normally on a project length basis rather than annually. Formal budgetary integration is employed as a management control device.

**g. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

**h. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3 – Reconciliation of Government-Wide and Fund Financial Statements**

**1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The Governmental fund balance sheet includes reconciliation between fund balance- total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. In addition to that, bond discounts are expended in Governmental Funds in the year of sale but are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets.

Revenue bonds	\$ 14,280,000
Accrued interest payable	957,517
Due to County of San Diego-loans	3,951,983
Discount on debt issued net of amortization of \$9,502	(36,447)
	<u>\$ 19,153,053</u>

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 3 – Reconciliation of Government-Wide and Fund Financial Statements (Continued)**

**2. Explanation of certain differences between the governmental fund's statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

The reconciliation states that “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets”. The details of this adjustment are as follows:

Debt principal repayment:

Revenue bonds	\$ 360,000
Due to the County of San Diego	<u>50,000</u>
	<u>\$ 410,000</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The details of this \$49,388 difference are as follows:

Amortization of issuance costs	\$ (15,399)
Amortization of bond discount	(1,702)
Change in accrued interest payable on long-term debt	<u>16,489</u>
	<u>\$ (612)</u>

**Note 4 – Equity in Pooled Cash and Investments**

The Redevelopment Agency's cash and cash equivalents are reported on the balance sheet as “Equity in Pooled Cash and Investments”. The County maintains a cash and investment pool that is available for use by all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated quarterly based on the average daily cash balances of the participating funds. It is adjusted to reflect fair value per GASB Statement No. 31 and to reflect availability of revenues from other funds to comply with GASB Statement No. 33.

Further disclosures regarding the County's cash and investment pool are included in the notes to the County's CAFR for the fiscal year ended June 30, 2011.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 4 – Equity in Pooled Cash and Investments (Continued)**

Restrictions on Cash Balances

Cash balances of \$2,459,362 at June 30, 2011 are restricted by law for Low and Moderate Income Housing.

Equity in pooled cash and investments are reported as follows in the Statement of Net Assets:

Equity in pooled cash and investments	\$6,241,383
Cash and Investments with Fiscal Agents	\$1,154,993

Investments are authorized by the California Government code and the Agency's Investment Policy.

The table below identifies the **investment types** that are authorized for the Agency and the debt proceeds held by bond trustee per debt agreements by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	25%
Local Agency Obligations	5 years	15%	10%
Bankers Acceptance	180 days	40%	5%
Commercial Paper	270 days	40%	5%-10%
Medium Term Notes	5 years	30%	5%
Negotiable Certificates of Deposits	5 years	30%	5%
Repurchase Agreement	1 year	40%	10%-15%
Reverse Repurchase Agreement	92 days	20%	10%
Collateralized Certificates of Deposits	1 year	10%	None
Covered Call Option/Put Option	90 days	10%	None
Money Market Mutual Fund	N/A	15%	10%
Local Agency Investment Fund (State Pool)	N/A	10%	None
Pass-Through Securities	5 years	20%	5%

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 4 – Equity in Pooled Cash and Investments (Continued)**

Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
Held by Bond Trustee:							
Federated Treasury							
Obligation Money Market	\$ 1,154,993	\$ 1,154,993	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 1,154,993	\$ 1,154,993	\$ -	\$ -	\$ -	\$ -	\$ -

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The Agency's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The Agency does not hold any specific investments that need to be reported here.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				Standard & Poor's	Moody's	Fitch	Not Rated
Held by Bond Trustee:							
Federated Treasury							
Obligation Money Market	\$ 1,154,993	N/A	\$ -	AAAm	Aaa	N/A	N/A

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 4 – Equity in Pooled Cash and Investments (Continued)**

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, the Agency has all of its deposits pooled with the County. As of June 30, 2011, Agency investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Federated Treasury Obligation Money Market	<u>\$1,154,993</u>

**Note 5 – Long-Term Debt and Due to County of San Diego**

Long-term debt is reported in the Statement of Net Assets. Changes in long-term debt for the fiscal year ended June 30, 2011, are as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Due within One Year</u>
Due to County of San Diego-					
loans	\$ 4,001,983	\$ -	\$ 50,000	\$ 3,951,983	\$ 50,000
Interest on loans	909,372	26,510	43,000	892,882	-
Revenue bonds payable	14,640,000	-	360,000	14,280,000	375,000
Less: unamortized discount	(38,149)	-	(1,702)	(36,447)	(1,702)
Total	<u>\$ 19,513,206</u>	<u>\$ 26,510</u>	<u>\$ 451,298</u>	<u>\$ 19,088,418</u>	<u>\$ 423,298</u>

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 5 – Long-Term Debt and Due to County of San Diego (Continued)**

In December 2005, the Redevelopment Agency of the County of San Diego issued \$16 million of Gillespie Field Project Revenue Refunding Bonds (Gillespie), Series 2005A consisting of \$9.225 million Series A-1 bonds and \$6.775 million Series 2005 Alternative Minimum Tax (AMT) bonds. The \$9.225 million Series 2005 A-1 bonds consists of: 1) \$7.035 million Serial Series 2005 A-1 bonds that carry fixed interest rates ranging from 3.65% to 5.3% along with a projected yield ranging from 3.65% to 5.3%, with a portion of the principal due each fiscal year beginning in fiscal year 2007, with a final maturity date of December 1, 2025; and, 2) \$2.19 million Series 2005 A-1 Term Bonds that carry a fixed interest rate of 5.4% along with a projected yield of 5.45%, with a portion of the principal due each fiscal year beginning in fiscal year 2007, with a final maturity date of December 1, 2025.

The \$6.775 million Series 2005 AMT Term Bonds carry a fixed interest rate of 5.75% along with a projected yield of 5.75%. Interest is paid on the \$6.775 million Series 2005 AMT Term Bonds each fiscal year beginning in Fiscal Year 2007. However, no principal payments are made until December 1, 2025. A portion of the principal is due each fiscal year beginning in Fiscal Year 2026, with a maturity date of December 1 2032. Payments on the entire \$16 million Gillespie bond issuance are to be paid from tax increment revenues received. The face value of these new bonds attributed to the refunding was \$4.22 million.

The following is the 2005A Gillespie Revenue Refunding Bonds schedule of debt service requirements to maturity.

Fiscal Years Ended June 30	Principal	Interest	Total
2012	\$ 375,000	\$ 765,667	\$ 1,140,667
2013	395,000	747,728	1,142,728
2014	415,000	728,251	1,143,251
2015	430,000	707,637	1,137,637
2016	455,000	685,632	1,140,632
2017-2021	2,635,000	3,046,342	5,681,342
2022-2026	3,405,000	2,246,766	5,651,766
2027-2031	4,475,000	1,138,476	5,613,476
2032-2033	1,695,000	90,635	1,785,635
	<u>\$ 14,280,000</u>	<u>\$ 10,157,134</u>	<u>\$ 24,437,134</u>

Due to the County of San Diego - Loans

Loans between the Agency and the County are treated as liabilities in the Agency's funds and assets in the County. The Agency has agreed to pay interest on all funds advanced or loaned to the Agency when funds are available for this purpose. Interest accrues on the average quarterly outstanding balance, at a rate equal to the average County earned investment rate as determined by the County Treasurer.



**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 5 – Long-Term Debt and Due to County of San Diego (Continued)**

Due to the County of San Diego – Loans (Continued)

The principal and accrued interest costs for loans outstanding as of June 30, 2011, are as follows:

Project	Loaning Fund/District	Principal	Interest
Gillespie Field	Airport Enterprise Fund	\$ 3,363,203	\$ 459,428
Upper San Diego River	General Fund	588,780	433,454
Total		<u>\$ 3,951,983</u>	<u>\$ 892,882</u>

No future debt maturity schedule is disclosed due to the Airport Enterprise Fund and General Fund because repayment is only due when the funds are available.

**Note 6 – Pledged Revenue**

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity as of June 30 (In Thousands)	Debt Principal and Interest Paid During Fiscal Year (In Thousands)	Current Fiscal Year Revenue (In Thousands)
Series 2005A Revenue Refunding Bonds	2033	\$24,437	\$1,143	\$1,103

• *Series 2005 Revenue Refunding Bonds*

In December 2005, the San Diego County Redevelopment Agency (Redevelopment Agency) issued \$16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2032-33. The Redevelopment Agency has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property increment tax revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the indenture, including earnings on such funds. As shown in the table above, the pledged revenue represents the debt service requirements to maturity of the bonds at June 30.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 7 - Loans Receivables and Prepaid Item**

**Loans Receivable**

Metropolitan Area Advisory Committee Loan

A resolution of the Board of Directors of the Redevelopment Agency of the County of San Diego and the Board of Supervisors was approved to use the Low and Moderate-Income Housing Funds from the Gillespie Field and Upper San Diego River. This resolution authorizes \$1,356,000 loan to Metropolitan Area Advisory Committee. The \$1,000,000 advance from the Redevelopment Agency Housing Funds is to acquire 55-year rent affordability covenants and \$356,000 in the Community Development Block grant funds to rehabilitate the Villa Lakeshore Apartments in the community of Lakeside, a 34-unit housing project of the Metropolitan Area Advisory Committee Project. This proposal is in response to the 2003 Affordable Housing Open Notice of Funding Availability. In exchange for the \$1,356,000 loan, the MAAC Project will maintain affordable rents for 55 years for low-income families earning at or below 50 percent and 60 percent of the area median income (AMI).

Chelsea Investment Corporation Loan

The Board of Supervisors approved the resolution to authorize loans of up to \$8.51 million to the Chelsea Investment Corporation to acquire and develop the Silversage Apartments located in Lakeside, California. A loan of up to \$6,092,927 is being financed from U.S. Department of Housing and Urban Development (HUD) HOME Investment Partnerships and Community Development Block Grant funds. The remaining \$2,417,074 loaned to the Chelsea Investment Corporation will be financed from the Redevelopment Agency Housing Funds, \$1,891,449 from the Gillespie Field Housing Fund and \$525,624 from the Upper San Diego Housing Fund. The Silversage Apartments will be an 80-unit multifamily affordable housing project and will have rent restrictions for a period of 55 years. These units will be affordable to low-income households earning no more than 60% of the AMI. The outstanding balance of the loan at June 30, 2011 is \$2,417,074.

**Prepaid Item**

A prepaid item was established between the Department of Housing Community and Development to move the entire amount \$1,530,215 approved funding as per Management Agreement dated February 24, 2003. A total amount of \$1,472,420 was advanced to the Housing Authority for funding the Rental Assistance program with an ending balance of \$330,303 on June 30, 2011.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 8 – Administrative Costs**

These amounts are accounted for as prescribed in the State Controller's "Uniform Accounting System for Community Redevelopment Agencies." Included within this classification are salaries and wages of County employees engaged in planning, survey, and design work for the Upper San Diego River Project.

**Note 9 – Commitments**

Future Tax Revenues

Litigation regarding the Gillespie Field Redevelopment Project was settled on June 26, 1989. The Agency is essentially obligated to provide future property tax revenue considerations to certain school districts, as defined in the Settlement Agreement.

Additionally, cooperation agreements exist between the Agency and certain school districts regarding the Upper San Diego River Project, obligating the Agency to provide future property tax revenue considerations to these school districts. This started in Fiscal Year 1991/92 when tax increment revenue collection began for the Upper San Diego River Project. Future property tax revenue considerations for the two projects cannot be reasonably estimated since these revenues are based upon future economic conditions.

Lakeside Fire Protection District

The Redevelopment Agency reenergized its Upper San Diego River Improvement Project Five-Year Implementation Plan to development projects within the community of Lakeside. Upper San Diego River committed \$15,510,000 to the Lakeside Fire Protection District to build a new fire station, administrative offices, meeting rooms, apparatus repair shop, and a training annex in accordance with the Cooperation Agreement between the District and Upper San Diego River. On March 24, 2010, the Redevelopment Agency entered into a revised cooperation agreement between the Upper San Diego Improvement Project Area and the Lakeside Fire Protection District. The "First Amendment to the Cooperation Agreement between the Redevelopment Agency of the County of San Diego and the Lakeside Fire Protection District" (the Amendment) reduced the original committed amount to \$14,510,000. The Amendment also increased the annual disbursements to the District from \$400,000 to \$550,000. The increased annual disbursements to the District will result in the term being reduced from fiscal year 2039-2040 to 2029-2030. Before annual reimbursements are disbursed to the District, the agreement requires the District to provide the Agency an annual report detailing its compliance with the project plan including itemizing its project cost. As of June 30, 2011 remaining commitment balance is \$10,450,000. Funding sources to reimburse the District are coming from tax increment revenues and available fund balance.

General

There are certain claims against the Agency which have been denied and referred to the Agency insurance carrier. The Agency believes that none of these claims will exceed insurance coverage.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 10 – Net Assets and Fund Balances**

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

**A. Net Assets**

Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these capital assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

**B. Fund Balances**

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors, such as through debt covenants, grantors, contributors, or laws and regulations. The Agency does not have any committed, assigned, or unassigned fund balances at June 30, 2011.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

**Note 11 – Financial Condition**

The Agency has deficit net assets of \$7,818,144 at June 30, 2011. The Agency projects that future resources will be sufficient to pay long-term obligations as they become due.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 12 – Contingency**

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.) On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the County) to take several legislative actions to implement their various provisions.

If the County, as the Agency's sponsoring community, does not elect to continue the Agency under the provisions of the Continuation Act, the Agency will be deemed dissolved effective October 1, 2011. Under the provisions of the Dissolution Act, an "Enforceable Payment Obligation Schedule" (EOPS) will be adopted by the Agency and presented to the County Auditor-Controller for certification. The last official act of the Agency will be to provide a draft "Recognized Obligation Payment Schedule" (ROPS) to a successor agency. The ROPS is subject to an independent audit and a review by an independent oversight board. Once audited and accepted by the oversight board, the County Auditor & Controller is directed to retain an amount of tax increment sufficient to meet the ongoing cost of enforceable obligations, and then distribute the remainder of revenues to the affected taxing agencies.

If the County elects to continue the Agency, the County Board of Supervisors (Board) must enact a non-binding resolution of its intent to continue the Agency no later than October 1, 2011, and it must also enact an ordinance agreeing to comply with the Continuation Act no later than November 1, 2011. Pursuant to the Continuation Act, the County must then make an annual payment, which may be reimbursed by the Agency. The required payment, which was calculated by the State Department of Finance and released to the County on August 1, 2011, will be \$1,299,986 for FY 2011-12. Subsequent remittance payments will be calculated using a statutory ratio that will be applied to the FY 2011-12 payment and adjusted for inflation and other items. The County estimates that the payment for FY 2012-13 will be \$313,605.

The County has not recorded any liability related to these Acts in these financial statements. At the close of FY 2010-11 the amount of the required payment was not yet known. The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision. If the Supreme Court upholds these Acts, the realization of any costs related to the Continuation Act is subject to an action by the Board taken subsequent to the issuance of this report.

Should the Board elect to discontinue the Agency, it would then be dissolved and its rights, obligations and responsibilities would be assigned to a successor agency. If the Supreme Court upholds these Acts, the Board will consider the ordinance required for continuation of the Agency subsequent to the issuance of this report.

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**Note 13 – Subsequent Event**

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 12). On August 2, 2011, the Board of Directors of the Redevelopment Agency adopted the Enforceable Obligation Payment schedule and, on September 27, 2011, the Recognized Obligation Payment Schedule and an amended Enforceable Obligation Schedule. Both schedules are required by the Dissolution Act. No other actions have been taken in light of the stay orders issued by the California Supreme Court *California Redevelopment Assn. v. Matosantos* (SI94861). If the Dissolution Act and Continuation Act are upheld, the Agency will be required to make a determination to continue or to dissolve the Agency. These actions will be taken subsequent to the issuance of this report.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GILLESPIE FIELD REDEVELOPMENT SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax increment	\$ 2,756,522	\$ 2,756,522	\$ 2,560,160	\$ (196,362)
Use of money and property	24,000	24,000	6,664	(17,336)
Total Revenues	2,780,522	2,780,522	2,566,824	(213,698)
EXPENDITURES				
Current:				
Community development	142,426	142,426	110,118	32,308
Pass through agreements - school districts	937,483	937,483	806,605	130,878
Total Expenditures	1,079,909	1,079,909	916,723	163,186
Excess of Revenues Over (Under) Expenditures	1,700,613	1,700,613	1,650,101	(50,512)
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,700,613)	(1,700,613)	(1,655,482)	45,131
Total Other Financing Sources (Uses)	(1,700,613)	(1,700,613)	(1,655,482)	45,131
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	-	-	(5,381)	(5,381)
FUND BALANCE, BEGINNING OF FISCAL YEAR	1,668,219	1,668,219	1,668,219	-
FUND BALANCE, END OF FISCAL YEAR	\$ 1,668,219	\$ 1,668,219	\$ 1,662,838	\$ (5,381)

See notes to required supplementary information



**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GILLESPIE FIELD HOUSING FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 10,000	\$ 10,000	\$ 7,664	\$ (2,336)
Total Revenues	10,000	10,000	7,664	(2,336)
EXPENDITURES				
Current:				
Community development	557,162	746,307	33,710	712,597
Total Expenditures	557,162	746,307	33,710	712,597
Excess of Revenues Over (Under) Expenditures	(547,162)	(736,307)	(26,046)	710,261
OTHER FINANCING SOURCES (USES)				
Transfers in	547,162	547,162	512,032	(35,130)
Total Other Financing Sources (Uses)	547,162	547,162	512,032	(35,130)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	-	(189,145)	485,986	675,131
FUND BALANCE, BEGINNING OF FISCAL YEAR	3,815,575	3,815,575	3,815,575	-
FUND BALANCE, END OF FISCAL YEAR	\$ 3,815,575	\$ 3,626,430	\$ 4,301,561	\$ 675,131

See notes to required supplementary information

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
UPPER SAN DIEGO RIVER REDEVELOPMENT SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property tax increment	\$ 1,759,000	\$ 1,759,000	\$ 1,546,754	\$ (212,246)
Use of money and property	45,000	45,000	1,675	(43,325)
Other income	688,000	688,000	2,755	(685,245)
<b>Total Revenues</b>	<u>2,492,000</u>	<u>2,492,000</u>	<u>1,551,184</u>	<u>(940,816)</u>
<b>EXPENDITURES</b>				
Current:				
Community development	2,238,750	2,238,750	1,139,092	1,099,658
Debt service:				
Principal	100,000	100,000	50,000	50,000
Interest and fiscal charges	-	-	43,000	(43,000)
Pass through agreements - school districts	225,000	225,000	270,609	(45,609)
<b>Total Expenditures</b>	<u>2,563,750</u>	<u>2,563,750</u>	<u>1,502,701</u>	<u>1,061,049</u>
Excess of Revenues Over (Under) Expenditures	<u>(71,750)</u>	<u>(71,750)</u>	<u>48,483</u>	<u>120,233</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(352,000)</u>	<u>(352,000)</u>	<u>(309,351)</u>	<u>42,649</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(352,000)</u>	<u>(352,000)</u>	<u>(309,351)</u>	<u>42,649</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	<u>(423,750)</u>	<u>(423,750)</u>	<u>(260,868)</u>	<u>162,882</u>
<b>FUND BALANCE, BEGINNING OF FISCAL YEAR</b>	<u>1,694,068</u>	<u>1,694,068</u>	<u>1,694,068</u>	<u>-</u>
<b>FUND BALANCE, END OF FISCAL YEAR</b>	<u>\$ 1,270,318</u>	<u>\$ 1,270,318</u>	<u>\$ 1,433,200</u>	<u>\$ 162,882</u>

See notes to required supplementary information

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
UPPER SAN DIEGO RIVER HOUSING FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Use of money and property	\$ 3,350	\$ 3,350	\$ 8,047	\$ 4,697
Total Revenues	3,350	3,350	8,047	4,697
EXPENDITURES				
Current:				
Community development	355,350	407,913	48,922	358,991
Total Expenditures	355,350	407,913	48,922	358,991
Excess of Revenues Over (Under) Expenditures	(352,000)	(404,563)	(40,875)	363,688
OTHER FINANCING SOURCES (USES)				
Transfers in	352,000	352,000	309,351	(42,649)
Total Other Financing Sources (Uses)	352,000	352,000	309,351	(42,649)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	-	(52,563)	268,476	321,039
FUND BALANCE, BEGINNING OF FISCAL YEAR	1,709,949	1,709,949	1,709,949	-
FUND BALANCE, END OF FISCAL YEAR	\$ 1,709,949	\$ 1,657,386	\$ 1,978,425	\$ 321,039

See notes to required supplementary information

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2011**

**Budgetary Information**

General Budget Policies

California Government Code Section 29088 requires the Board of Directors to adopt the final budget no later than October 2 of each year. The annual resolution adopts the budget at the object level of expenditures within departments. Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Directors.

Appropriations may also be adjusted during the year with the approval of the Board of Directors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a budget unit that does not change the overall budget or program direction. Such adjustments are reflected in the Final Budget. Accordingly, the legal level of budgetary control by the Board of Directors is at the budget unit level.

The schedule of revenues, expenditures, and changes in fund balance – budget and actual for the Gillespie Field Special Revenue Fund, Gillespie Field Housing Fund, Upper San Diego River Special Revenue Fund, and Upper San Diego River Housing Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles of the United States of America (US GAAP).

The Original Budget consists of the adopted budget plus the budget carried forward from the prior fiscal year. The Agency adopts its budget subsequent to the start of each fiscal year by August 30<sup>th</sup>. The Final Budget includes the Original Budget plus amended budget changes occurring during the fiscal year.

## **OTHER SUPPLEMENTARY INFORMATION**

**REDEVELOPMENT AGENCY OF THE COUNTY OF SAN DIEGO  
COMPUTATION OF LOW AND MODERATE INCOME  
HOUSING FUND EXCESS SURPLUS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Gillespie Field</u>	<u>Upper San Diego River</u>
	<u>Special Revenue Housing Fund</u>	<u>Special Revenue Housing Fund</u>
Fund balance at June 30, 2011	\$ 4,301,561	\$ 1,978,425
Less unavailable amounts:		
Loans receivable	2,466,450	950,624
Prepaid items	269,138	61,165
Total unavailable amounts	<u>2,735,588</u>	<u>1,011,789</u>
Available low and moderate income housing funds	<u>1,565,973</u>	<u>966,636</u>
Limitation (greater of \$1,000,000 or four years set-aside):		
Set-aside for last four years:		
2010-2011	512,032	309,351
2009-2010	542,228	315,894
2008-2009	456,032	341,101
2007-2008	436,048	326,525
Total set-aside	<u>1,946,340</u>	<u>1,292,871</u>
Base limitation	<u>1,000,000</u>	<u>1,000,000</u>
Greater amount	<u>\$ 1,946,340</u>	<u>\$ 1,292,871</u>
<b>Computed excess surplus</b>	<u>NONE</u>	<u>NONE</u>



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

**PARTNERS**

RONALD A. LEVY, CPA  
CRAIG A. HARTZHEIM, CPA  
HADLEY Y. HUI, CPA

**COMMERCIAL ACCOUNTING & TAX SERVICES**

9107 WILSHIRE BLVD. SUITE 500  
BEVERLY HILLS, CA 90210  
TEL: 310.273.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**GOVERNMENTAL AUDIT SERVICES**

5800 HANNUM, SUITE E  
CULVER CITY, CA 90230  
TEL: 310.670.2745  
FAX: 310.670.1689  
www.mlhcpas.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Members of the Governing Board  
Redevelopment Agency of the County of San Diego  
San Diego, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the County of San Diego (Agency) a component unit of the County of San Diego, California as of and for the fiscal year ended June 30, 2011, and have issued our report thereon dated October 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board of Directors, management, the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

*Moss, Levy & Hartzheim*

Moss, Levy & Hartzheim, LLP  
Culver City, California  
October 5, 2011